

# PERAC AUDIT REPORT

## Clinton Contributory Retirement System

JAN. 1, 2002 - DEC. 31, 2005 / PERAC 05: 12-028-27



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*  
KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS | THOMAS TRIMARCO

JOSEPH E. CONNARTON, *Executive Director*

September 28, 2006

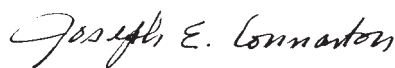
The Public Employee Retirement Administration Commission has completed an examination of the Clinton Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2002 to December 31, 2005. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission. There were no significant findings to report.

We commend the Clinton Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiner Richard Ackerson who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



# Clinton Retirement System

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2002  
AND ENDING DECEMBER 31, 2005**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
<b>ASSETS</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Cash	\$1,224,442	\$616,392	\$288,337	\$1,019,626
Short Term Investments	0	0	0	0
Fixed Income Securities	0	0	0	0
Equities	0	0	0	0
Pooled Short Term Funds	0	0	0	0
Pooled Domestic Equity Funds	10,763,366	9,597,374	9,209,395	7,139,226
Pooled International Equity Funds	6,022,679	4,781,014	3,197,647	0
Pooled Global Equity Funds	0	0	0	0
Pooled Domestic Fixed Income Funds	2,757,534	2,684,053	2,351,429	3,998,534
Pooled International Fixed Income Funds	0	0	0	0
Pooled Global Fixed Income Funds	0	0	0	0
Pooled Alternative Investment Funds	0	0	0	0
Pooled Real Estate Funds	1,534,132	2,195,762	2,213,548	1,207,822
Pooled Domestic Balanced Funds	0	0	0	0
Pooled International Balanced Funds	0	0	0	0
PRIT Cash Fund	0	0	0	0
PRIT Core Fund	0	0	0	0
Interest Due and Accrued	4,037	752	217	1,209
Accounts Receivable	4,761	2,534	14,148	24,611
Accounts Payable	0	0	0	0
<b>TOTAL</b>	<b><u>\$22,310,950</u></b>	<b><u>\$19,877,881</u></b>	<b><u>\$17,274,720</u></b>	<b><u>\$13,391,028</u></b>
<b>FUND BALANCES</b>				
Annuity Savings Fund	\$7,021,961	\$6,499,372	\$6,237,352	\$5,876,490
Annuity Reserve Fund	1,445,416	1,513,420	1,296,657	1,215,993
Pension Fund	1,264,839	858,598	1,005,276	787,740
Military Service Fund	0	0	0	0
Expense Fund	0	0	0	0
Pension Reserve Fund	12,578,734	11,006,492	8,735,436	5,510,806
<b>TOTAL</b>	<b><u>\$22,310,950</u></b>	<b><u>\$19,877,881</u></b>	<b><u>\$17,274,720</u></b>	<b><u>\$13,391,028</u></b>

# Clinton Retirement System

## STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2002  
AND ENDING DECEMBER 31, 2005**

	<b>Annuity Savings Fund</b>	<b>Annuity Reserve Fund</b>	<b>Pension Fund</b>	<b>Military Service Fund</b>	<b>Expense Fund</b>	<b>Pension Reserve Fund</b>	<b>Total All Funds</b>
<b>Beginning Balance (2002)</b>	\$5,325,319	\$1,225,775	\$573,276	\$0	\$0	\$7,320,124	<b>\$14,444,494</b>
Receipts	703,075	35,387	1,205,487	0	155,277	(1,809,318)	<b>289,907</b>
Interfund Transfers	(99,135)	99,135	0	0	0	0	<b>0</b>
Disbursements	<u>(52,769)</u>	<u>(144,304)</u>	<u>(991,023)</u>	<u>0</u>	<u>(155,277)</u>	<u>0</u>	<b><u>(1,343,373)</u></b>
<b>Ending Balance (2002)</b>	<b>5,876,490</b>	<b>1,215,993</b>	<b>787,740</b>	<b>0</b>	<b>0</b>	<b>5,510,806</b>	<b>13,391,028</b>
Receipts	698,326	37,939	1,243,544	0	164,036	3,224,840	<b>5,368,685</b>
Interfund Transfers	(202,916)	203,126	0	0	0	(210)	<b>0</b>
Disbursements	<u>(134,548)</u>	<u>(160,401)</u>	<u>(1,026,008)</u>	<u>0</u>	<u>(164,036)</u>	<u>0</u>	<b><u>(1,484,993)</u></b>
<b>Ending Balance (2003)</b>	<b>6,237,352</b>	<b>1,296,657</b>	<b>1,005,276</b>	<b>0</b>	<b>0</b>	<b>8,735,436</b>	<b>17,274,720</b>
Receipts	717,953	44,612	1,102,701	0	179,986	2,271,056	<b>4,316,308</b>
Interfund Transfers	(356,977)	356,977	0	0	0	0	<b>0</b>
Disbursements	<u>(98,955)</u>	<u>(184,826)</u>	<u>(1,249,380)</u>	<u>0</u>	<u>(179,986)</u>	<u>0</u>	<b><u>(1,713,147)</u></b>
<b>Ending Balance (2004)</b>	<b>6,499,372</b>	<b>1,513,420</b>	<b>858,598</b>	<b>0</b>	<b>0</b>	<b>11,006,492</b>	<b>19,877,881</b>
Receipts	796,029	44,245	1,723,109	0	193,226	1,572,242	<b>4,328,852</b>
Interfund Transfers	(83,795)	83,795	0	0	0	0	<b>0</b>
Disbursements	<u>(189,645)</u>	<u>(196,044)</u>	<u>(1,316,868)</u>	<u>0</u>	<u>(193,226)</u>	<u>0</u>	<b><u>(1,895,783)</u></b>
<b>Ending Balance (2005)</b>	<b><u>\$7,021,961</u></b>	<b><u>\$1,445,416</u></b>	<b><u>\$1,264,839</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$12,578,734</u></b>	<b><u>\$22,310,951</u></b>

# Clinton Retirement System

## STATEMENT OF INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2002  
AND ENDING DECEMBER 31, 2005**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Annuity Savings Fund:</b>				
Members Deductions	\$691,421	\$651,821	\$623,128	\$598,365
Transfers from other Systems	49,967	19,339	8,085	26,352
Member Make Up Payments and Redeposits	16,559	11,626	10,640	4,650
Investment Income Credited to Member Accounts	<u>38,082</u>	<u>35,167</u>	<u>56,473</u>	<u>73,709</u>
<b>Sub Total</b>	<b><u>796,029</u></b>	<b><u>717,953</u></b>	<b><u>698,326</u></b>	<b><u>703,075</u></b>
<b>Annuity Reserve Fund:</b>				
Investment Income Credited Annuity Reserve Fund	<u>44,245</u>	<u>44,612</u>	<u>37,939</u>	<u>35,387</u>
<b>Pension Fund:</b>				
3 (8) (c) Reimbursements from Other Systems	35,048	18,883	17,785	16,706
Received from Commonwealth for COLA and Survivor Benefits	126,843	45,036	46,601	65,720
Pension Fund Appropriation	<u>1,561,219</u>	<u>1,038,782</u>	<u>1,179,158</u>	<u>1,123,061</u>
<b>Sub Total</b>	<b><u>1,723,109</u></b>	<b><u>1,102,701</u></b>	<b><u>1,243,544</u></b>	<b><u>1,205,487</u></b>
<b>Military Service Fund:</b>				
Contribution Received from Municipality on Account of Military Service	0	0	0	0
Investment Income Credited Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Sub Total</b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>
<b>Expense Fund:</b>				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to Expense Fund	<u>193,226</u>	<u>179,986</u>	<u>164,036</u>	<u>155,277</u>
<b>Sub Total</b>	<b><u>193,226</u></b>	<b><u>179,986</u></b>	<b><u>164,036</u></b>	<b><u>155,277</u></b>
<b>Pension Reserve Fund:</b>				
Federal Grant Reimbursement	0	0	0	0
Misc Income	3,273	0	0	0
Interest Not Refunded	210	46	410	1,141
Excess Investment Income	<u>1,568,760</u>	<u>2,271,010</u>	<u>3,224,430</u>	<u>(1,810,460)</u>
<b>Sub Total</b>	<b><u>1,572,242</u></b>	<b><u>2,271,056</u></b>	<b><u>3,224,840</u></b>	<b><u>(1,809,318)</u></b>
<b>TOTAL RECEIPTS</b>	<b><u>\$4,328,852</u></b>	<b><u>\$4,316,308</u></b>	<b><u>\$5,368,685</u></b>	<b><u>\$289,907</u></b>

# Clinton Retirement System

## STATEMENT OF DISBURSEMENTS

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2002  
AND ENDING DECEMBER 31, 2005**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Annuity Savings Fund:</b>				
Refunds to Members	\$46,620	\$15,609	\$24,911	\$36,446
Transfers to other Systems	<u>143,025</u>	<u>83,347</u>	<u>109,637</u>	<u>16,323</u>
<b>Sub Total</b>	<b><u>189,645</u></b>	<b><u>98,955</u></b>	<b><u>134,548</u></b>	<b><u>52,769</u></b>
<b>Annuity Reserve Fund:</b>				
Annuities Paid	194,526	184,826	160,401	144,178
Option B Refunds	<u>1,518</u>	<u>0</u>	<u>0</u>	<u>126</u>
<b>Sub Total</b>	<b><u>196,044</u></b>	<b><u>184,826</u></b>	<b><u>160,401</u></b>	<b><u>144,304</u></b>
<b>Pension Fund:</b>				
Pensions Paid				
Regular Pension Payments	904,153	868,830	705,041	651,333
Survivorship Payments	8,256	11,535	15,400	18,808
Ordinary Disability Payments	56,256	45,675	35,306	34,350
Accidental Disability Payments	201,638	189,954	181,709	156,507
Accidental Death Payments	19,401	15,383	15,023	14,663
Section 101 Benefits	12,551	9,273	6,090	4,839
3 (8) (c) Reimbursements to Other Systems	114,614	108,728	67,439	110,523
State Reimbursable COLA's Paid	0	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Sub Total</b>	<b><u>1,316,868</u></b>	<b><u>1,249,380</u></b>	<b><u>1,026,008</u></b>	<b><u>991,023</u></b>
<b>Military Service Fund:</b>				
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>				
Board Member Stipend	14,750	14,750	15,000	15,000
Salaries	31,842	30,853	30,553	28,997
Legal Expenses	0	0	0	0
Medical Expenses	0	0	0	0
Travel Expenses	1,024	1,977	1,037	2,854
Administrative Expenses	18,073	19,281	19,428	18,103
Furniture and Equipment	899	869	2,598	948
Management Fees	104,521	89,214	71,306	64,405
Fiduciary Insurance	1,616	1,542	3,162	2,570
Consultant Fees	<u>20,500</u>	<u>21,500</u>	<u>20,950</u>	<u>22,400</u>
<b>Sub Total</b>	<b><u>193,226</u></b>	<b><u>179,986</u></b>	<b><u>164,036</u></b>	<b><u>155,277</u></b>
<b>TOTAL DISBURSEMENTS</b>	<b><u>\$1,895,783</u></b>	<b><u>\$1,713,147</u></b>	<b><u>\$1,484,993</u></b>	<b><u>\$1,343,373</u></b>

# Clinton Retirement System

## INVESTMENT INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2002  
AND ENDING DECEMBER 31, 2005**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2005	2004	2003	2002
<b>Investment Income Received From:</b>				
Cash	\$21,520	\$11,353	\$7,433	\$9,500
Short Term Investments	0	0	0	0
Fixed Income	0	0	0	0
Equities	0	0	0	0
Pooled or Mutual Funds	15,719	0	0	0
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL INVESTMENT INCOME</b>	<b><u>37,239</u></b>	<b><u>11,353</u></b>	<b><u>7,433</u></b>	<b><u>9,500</u></b>
<b>Plus:</b>				
Realized Gains	0	0	274	0
Unrealized Gains	3,744,985	3,921,908	4,171,851	2,218,683
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>4,037</u>	<u>752</u>	<u>217</u>	<u>1,209</u>
<b>Sub Total</b>	<b><u>3,749,021</u></b>	<b><u>3,922,660</u></b>	<b><u>4,172,342</u></b>	<b><u>2,219,892</u></b>
<b>Less:</b>				
Paid Accrued Interest on Fixed Income Securities	0	0	0	0
Realized Loss	0	0	(30,766)	0
Unrealized Loss	(1,941,195)	(1,403,022)	(664,922)	(3,774,451)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(752)</u>	<u>(217)</u>	<u>(1,209)</u>	<u>(1,028)</u>
<b>Sub Total</b>	<b><u>(1,941,947)</u></b>	<b><u>(1,403,239)</u></b>	<b><u>(696,897)</u></b>	<b><u>(3,775,479)</u></b>
<b>NET INVESTMENT INCOME</b>	<b><u>1,844,313</u></b>	<b><u>2,530,774</u></b>	<b><u>3,482,878</u></b>	<b><u>(1,546,087)</u></b>
<b>Income Required:</b>				
Annuity Savings Fund	38,082	35,167	56,473	73,709
Annuity Reserve Fund	44,245	44,612	37,939	35,387
Military Service Fund	0	0	0	0
Expense Fund	<u>193,226</u>	<u>179,986</u>	<u>164,036</u>	<u>155,277</u>
<b>TOTAL INCOME REQUIRED</b>	<b><u>275,553</u></b>	<b><u>259,765</u></b>	<b><u>258,448</u></b>	<b><u>264,373</u></b>
Net Investment Income	<u>1,844,313</u>	<u>2,530,774</u>	<u>3,482,878</u>	<u>(1,546,087)</u>
Less: Total Income Required	<u>275,553</u>	<u>259,765</u>	<u>258,448</u>	<u>264,373</u>
<b>EXCESS INCOME TO THE PENSION RESERVE FUND</b>	<b><u>\$1,568,760</u></b>	<b><u>\$2,271,010</u></b>	<b><u>\$3,224,430</u></b>	<b><u>(1,810,460)</u></b>



## Clinton Retirement System

### **STATEMENT OF ALLOCATION OF INVESTMENTS OWNED**

(percentages by category)

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2005**

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$1,224,442	5.49%	
Short Term	0	0.00%	
Fixed Income	0	0.00%	
Equities	0	0.00%	
Pooled Short Term Funds	0	0.00%	
Pooled Domestic Equity Funds	10,763,366	48.26%	
Pooled International Equity Funds	6,022,679	27.00%	
Pooled Global Equity Funds	0	0.00%	
Pooled Domestic Fixed Income Funds	2,757,534	12.36%	
Pooled International Fixed Income Funds	0	0.00%	
Pooled Global Fixed Income Funds	0	0.00%	
Pooled Alternative Investment Funds	0	0.00%	
Pooled Real Estate Funds	1,534,132	6.88%	
Pooled Domestic Balanced Funds	0	0.00%	
Pooled International Balanced Funds	0	0.00%	
PRIT Cash Fund	0	0.00%	
PRIT Core Fund	<u>0</u>	<u>0.00%</u>	
<b>GRAND TOTALS</b>	<b><u>\$22,302,153</u></b>	<b><u>100.00%</u></b>	

For the year ending December 31, 2005, the rate of return for the investments of the Clinton Retirement System was 9.32%. For the five-year period ending December 31, 2005, the rate of return for the investments of the Clinton Retirement System averaged 6.00%. For the 20-year period ending December 31, 2005, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the Clinton Retirement System was 8.85%

## **Clinton Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2005**

The **Clinton** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

January 14, 1991

- 20.03(1) Equity investments shall not exceed 50% of the total book value of the portfolio at the time of purchase and provided further that domestic equities shall not exceed 40% of the total book value of the portfolio at the time of purchase and international equities shall not exceed 10% of the total book value of the portfolio at the time of purchase.
- 20.04(1) United States based corporations and equities of foreign corporations.
- 20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.
- 20.07(9) Commingled real estate funds shall not exceed 10% of the total book value of the portfolio at the time of purchase.
- 20.07(10) A separate account may be used for real estate provided that:
- (a) contract holders do not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
  - (b) such personnel retain authority in the decision making process; and
  - (c) should an investment in a separate account result in the direct ownership of real estate or debt, such shall be permitted only until such time as divestiture is prudent.

July 28, 1994

- 20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including international fixed income investments which shall not exceed 5% of the portfolio valued at market.
- 20.04(6) The board may invest in obligations issued by foreign corporations and in obligations issued and guaranteed by foreign governments.

October 19, 1995

- 16.02(3) The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year.
- (a) 1% of the value of the fund for the first \$5 million, and
  - (b) 0.5% of the value of the fund in excess of \$5 million.

## **Clinton Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS (CONTINUED)**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2005**

April 23, 1997

- 18.02(4) Rate of Return – The rate of return objective is to equal or surpass a composite of 40% of the S&P 500 Index, 40% of the Merrill Lynch Government/Corporate Intermediate Index, and 20% of the Dow Jones World Stock Index over a five-year investment cycle.
- 18.02(5) Risk – The expected level of risk for the equity portion of the portfolio expressed in terms of an annual average beta coefficient with 1.0 equal to market volatility which, for boards partially or wholly exempt from statutory investment restrictions pursuant to 840 CMR 19.05, shall be not less than .29 nor more than 1.15 as determined in accordance with the beta service approved by the Executive Director.

October 3, 1997

- 20.03(1) Equity investments shall not exceed 70% of the portfolio valued at market, including international equities which shall not exceed 15% of the portfolio valued at market. (Expires December 31, 1998) (Subject to CMR 10.03(4))
- 20.03(2) At least 20% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including international fixed income investments which shall not exceed 5% of the portfolio valued at market. (Subject to CMR 20.03(4))
- 20.03(4) International investments shall not exceed 15% of the total portfolio valued at market. (Expires December 31, 1998)

December 4, 1997

- 20.07(9) Commingled real estate, limited to investments in Cohen & Steers Realty Shares, shall not exceed 15% of the total market value of the portfolio at the time of purchase provided that:
- (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
  - (b) such personnel retain authority in the decision making process, and
  - (c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

August 30, 2000

- 16.08 In accordance with PERAC Investment Guideline 99-2, the Clinton Retirement Board may make a modification to its investment agreements with State Street Global Advisors. In transitioning from the EAFE Securities Lending Fund to the International Growth Opportunities Fund, the Board is investing in the same universe of securities, with the same portfolio benchmark, but in an active rather than passive style consistent with its overall asset allocation program. The Board has an existing and successful relationship with SSgA, it is satisfied that SSgA has sufficient ability as an active international equity manager, and

## **Clinton Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS (CONTINUED)**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2005**

certain internal guidelines for the actively-managed fund limit the extent of the portfolio's deviation for the benchmark portfolio structure.

August 31, 2001

16.08 In accordance with PERAC Investment Guideline 99-2, the Clinton Retirement System is modifying its international growth equity mandate with State Street Global Advisors to allow for securities lending. There is no change in the fund's investment strategy, investment universe, or benchmark. The Board understands and is comfortable with the practice of securities lending and is satisfied with State Street Bank's capabilities in this area.

April 10, 2003

16.08 In accordance with PERAC Investment Guideline 99-2, the Clinton Retirement Board is authorized to invest in the SSGA International Alpha Fund. By supplementing its current investment in the SSGA International Growth Opportunities Fund, which has a growth tilt, with the International Alpha Fund, which has a value tilt, the Board will more effectively achieve its mandate for large cap international core equity. Both funds have an MSCI-EAFE benchmark. The Board has had a satisfactory experience with SSGA in international equity and benefits from the low management fees of SSGA's commingled funds.

May 27, 2005

16.08 In accordance with PERAC Investment Guideline 99-2, the Clinton Retirement Board is authorized to modify its small cap equity mandate with State Street Global Advisors by transferring its assets from the SSGA Small Cap Growth Opportunities Fund to the SSGA Small Cap Index Plus Fund. The new fund is less dependent on a particular portfolio manager and is also less style-specific. Over time, the enhanced index core approach should give the Board less volatility in its returns from small cap equity.

Dec. 6, 2005

16.08 In accordance with Investment Guideline 99-2, the Clinton Retirement Board is authorized to make a modest modification to its international equity management mandate with State Street Global Advisors. In order to obtain greater diversification within its international equity holdings, the Board will cease to invest solely in the SSGA International Alpha Common Trust fund. It will, instead, invest in SSGA's All International Allocation Strategy, which invests opportunistically in a number of SSGA international equity funds. Well over half the assets will typically be invested the SSGA International Alpha CTF, and about 87% will continue to be invested in developed markets. Between 10-15% will typically be invested in international small cap and emerging markets. Funds to be used include the International Growth Opportunities CTF, the Daily Active Emerging Markets CTF, the Canadian Alpha CTF, the Rexiter Active Emerging Markets CTF, and the Active International Small Cap CTF.

## **Clinton Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS (CONTINUED)**

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2005**

February 21, 2006

16.08

In accordance with Investment Guideline 99-2, the Clinton Retirement Board is authorized to make a minor modification to its large cap equity mandate with State Street Global Advisors. It will transfer its assets currently invested in SSGA's 500 Index Fund to SSGA's Index Plus Fund. This fund has the same investment universe and benchmark as the 500 Index Fund but seeks to outperform the Index by 50-100 basis points by making risk-controlled bets relative to the Index, such as by making selective over-weighting or under-weighting of certain stocks or by investing in certain large cap stocks that may not be in the S&P 500 Index.

# **Clinton Retirement System**

## **NOTES TO FINANCIAL STATEMENTS**

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2005**

### **NOTE 1 - THE SYSTEM**

The plan is a contributory defined benefit plan covering all **Clinton** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement benefits that were due each year.

## **Clinton Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2005**

Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

## Clinton Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2005

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

#### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Clinton** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

December 8, 1992

Effective as of October 22, 1992 a person must work a minimum of twenty hours per week to be eligible to join the Clinton Retirement System. Any member currently in the Clinton Retirement System before this date will be grandfathered into the system.

To allow two (2) months creditable service for each year a call firefighter works for the Town of Clinton, not to exceed five (5) years, provided that the call firefighter goes directly from a call firefighter to a permanent firefighter. This ruling takes effect as of October 23, 1992.



## **Clinton Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2005**

##### **NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)**

November 3, 1994

Any person working for the Town of Clinton who is not eligible for the town's retirement program and has an alternative retirement program being paid into will not be considered for creditable service for the town retirement plan.

April 17, 1996

Permanent part-time employees (as defined by the Town of Clinton Personnel By-Laws) working a minimum of twenty (20) consistent hours per week must become members of the Clinton Retirement System.

Part-time permanent employees, receiving weekly or monthly salaries or wages for consecutive periods of employment will be given creditable service based on service rendered.

For example, in the case of school personnel, consecutive periods of employment will be defined as returning the following September.

Any part-time employee who becomes a full-time employee shall have his or her part-time service prorated as it relates to a full-time position.

Anyone who was enrolled in FICA during the requested time for buyback is not eligible for buyback.

Those persons requesting buyback for creditable service must prove eligibility through recognized records (example: check stubs).

May 29, 1996

Any person requesting a buyback must have verification records of employment (e.g., tax records, tax returns, salary slips).

June 9, 1999

Buy- back Military Service

Each eligible member's buy back of military service time pursuant to Chapter 71 of the Acts of 1996 can be made up until the date of retirement.

November 19, 2002

Membership Eligibility, Creditable Service, and Prior Service

1. A person must work a minimum of an average of 20 hours per week per work year in order to be eligible to become a member of the Clinton Retirement System, except those elected officials who may join the system in accordance with Chapter 32, Section 3(2)(vi).

## **Clinton Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2005**

##### **NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)**

2. Creditable Service will be based on the average hours worked per week per work year. The following schedule will apply:

20-24 average hours per week .....50% creditable service

25-28 average hours per week .....60% creditable service

29-34 average hours per week .....75% creditable service

35 and over average hours per week ..... 100% creditable service

3. Eligible Prior Service rendered by a current system member who was not a member of the system at the time of the eligible service will be allowed to buy back creditable service on the following schedule:

20-24 average hours per week .....50% creditable service

25-28 average hours per week .....60% creditable service

29-34 average hours per week .....75% creditable service

35 and over average hours per week .....100% creditable service

## Clinton Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2005

##### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Town Accountant who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Diane L. Magliozzi

Appointed Member: George T. Kittredge                      Term Expires: Indefinite

Elected Member: John M. McNamara                      Term Expires: 02/02/07

Elected Member: Michael P. Digisi                      Term Expires: 04/15/08

Appointed Member: Paul B. Cherubini                      Term Expires: 02/04/09

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	
Ex officio Member:	)	\$50,000,000/\$1,000,000
Elected Member:	)	MACRS POLICY
Appointed Member:	)	
Staff Employee:	)	

# Clinton Retirement System

## NOTES TO FINANCIAL STATEMENTS (Continued)

### FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2005

#### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by PERAC as of January 1, 2005.

The actuarial liability for active members was	\$19,265,644
The actuarial liability for retired and inactive members was	<u>12,416,899</u>
The total actuarial liability was	<b>31,682,543</b>
System assets as of that date were	<u>19,072,814</u>
The unfunded actuarial liability was	<b><u>\$12,609,729</u></b>
 The ratio of system's assets to total actuarial liability was	 60.2%
As of that date the total covered employee payroll was	\$7,785,612

The normal cost for employees on that date was 8.20% of payroll

The normal cost for the employer was 7.20% of payroll

The principal actuarial assumptions used in the valuation are as follows:

**Investment Return:** 8.00% per annum

**Rate of Salary Increase:** Varies per annum

#### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2005

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2005	\$19,072,814	\$31,682,543	\$12,609,729	60.2%	\$7,785,612	162.0%
1/1/2003	14,730,131	26,050,826	11,320,695	56.5%	7,134,800	158.7%
1/1/2001	14,763,411	21,362,060	6,598,649	69.1%	6,794,265	97.1%

## Clinton Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2005**

#### NOTE 6 - MEMBERSHIP EXHIBIT

<b>Retirement in Past Years</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Superannuation	0	7	4	1	3	4	2	6	7	2
Ordinary Disability	0	0	0	1	1	0	0	0	1	0
Accidental Disability	0	0	1	0	0	3	0	1	0	1
Total Retirements	<b>0</b>	<b>7</b>	<b>5</b>	<b>2</b>	<b>4</b>	<b>7</b>	<b>2</b>	<b>7</b>	<b>8</b>	<b>3</b>
 Total Retirees, Beneficiaries and Survivors	100	104	105	102	101	102	97	100	103	104
 Total Active Members	173	177	196	208	230	244	244	242	259	261
 <b>Pension Payments</b>										
Superannuation	\$565,276	\$572,012	\$590,190	\$588,680	\$604,754	\$626,981	\$651,333	\$705,041	\$868,830	\$904,153
Survivor/Beneficiary Payments	25,514	26,250	23,787	18,300	18,860	23,506	18,808	15,400	11,535	8,256
Ordinary Disability	27,161	27,779	27,226	16,131	21,536	33,585	34,350	35,306	45,675	56,256
Accidental Disability	65,801	66,926	81,757	101,154	90,119	118,729	156,507	181,709	189,954	201,638
Other	<u>31,018</u>	<u>31,468</u>	<u>31,720</u>	<u>91,575</u>	<u>110,337</u>	<u>100,811</u>	<u>130,025</u>	<u>88,553</u>	<u>133,385</u>	<u>146,565</u>
Total Payments for Year	<b><u>\$714,770</u></b>	<b><u>\$724,435</u></b>	<b><u>\$754,680</u></b>	<b><u>\$815,841</u></b>	<b><u>\$845,606</u></b>	<b><u>\$903,613</u></b>	<b><u>\$991,023</u></b>	<b><u>\$1,026,008</u></b>	<b><u>\$1,249,380</u></b>	<b><u>\$1,316,868</u></b>

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